

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-K**

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended **October 31, 2006**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: **0-29911**

**THE SCO GROUP, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State of incorporation)

**87-0662823**  
(I.R.S. Employer  
Identification No.)

**355 South 520 West**  
**Lindon, Utah 84042**  
(Address of principal executive  
offices, including zip code)

**(801) 765-4999**  
(Registrant's telephone  
number, including area code)

Securities pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
<b>Common Stock, par value \$0.001 per share</b>	<b>The NASDAQ Stock Market LLC</b>
<b>Preferred Stock Purchase Rights</b>	<b>The NASDAQ Stock Market LLC</b>

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☒

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference on Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of 'large accelerated filer and accelerated filer' in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ☐ Accelerated filer ☐ Non-accelerated Filer ☒

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) YES ☐ NO ☒

The aggregate market value of the common stock held by non-affiliates of the Registrant was approximately \$42,410,000 based on the reported last sale price of common stock on April 30, 2006, which was the last business day of the Registrant's most recently completed second fiscal quarter.

The number of shares of the Registrant's common stock outstanding as of January 24, 2007, was 21,230,465.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's proxy statement to be filed pursuant to Regulation 14A in connection with its 2007 annual meeting of

distribution channel and any disruption in our distribution channel could have an adverse impact on future revenue.

The decrease in products revenue of \$6,127,000 from the year ended October 31, 2005 to the year ended October 31, 2006 and the decrease of \$5,162,000 from the year ended October 31, 2004 to the year ended October 31, 2005 was primarily attributable to decreased sales of OpenServer and UnixWare products. These decreases primarily resulted from continued competition in the operating system market, particularly Linux. We believe that this competition from Linux will continue for the year ending October 31, 2007 and future periods.

Our products revenue was derived primarily from sales of our OpenServer and UnixWare products. Other products revenue consists mainly of product maintenance and other UNIX-related products. Revenue for these products was as follows:

	<u>2006</u>	<u>Change</u>	<u>2005</u>	<u>Change</u>	<u>2004</u>
OpenServer revenue	\$14,098,000	(16)%	\$16,720,000	(9)%	\$18,467,000
Percent of products revenue	59%		55%		52%
UnixWare revenue	7,521,000	(16)%	8,979,000	(19)%	11,125,000
Percent of products revenue	31%		30%		32%
Other products revenue	2,444,000	(46)%	4,491,000	(22)%	5,760,000
Percent of products revenue	10%		15%		16%

The decreases in revenue for OpenServer and UnixWare and other products are all primarily the result of continued competition, particularly from Linux operating system providers. The decrease in other products revenue is primarily attributable to decreased sales of UNIX-related products and decreased sales of product maintenance, which is sold separately from the product.

#### *SCOsourc Licensing Revenue*

	<u>2006</u>	<u>Change</u>	<u>2005</u>	<u>Change</u>	<u>2004</u>
SCOsourc licensing revenue	\$116,000	(30)%	\$166,000	(80)%	\$829,000
Percent of total revenue	0%		0%		2%

We initiated our SCOsourc business for the purpose of protecting and defending our intellectual property rights in our UNIX source code and derivative works. SCOsourc licensing revenue was \$116,000 for the year ended October 31, 2006, \$166,000 for the year ended October 31, 2005 and \$829,000 for the year ended October 31, 2004. The SCOsourc revenue for the years ended October 31, 2006, 2005 and 2004 was primarily attributable to SCOsourc IP agreements. We believe and assert that our minimal SCOsourc revenue for the years ended October 31, 2006, 2005 and 2004 was, in part, attributable to Novell's claim of UNIX copyright ownership, which may have caused potential customers to delay or forego licensing until an outcome in this legal matter has been reached.

We are unable to predict the amount and timing of future SCOsourc licensing revenue.

#### *Services Revenue*

	<u>2006</u>	<u>Change</u>	<u>2005</u>	<u>Change</u>	<u>2004</u>
Services revenue	\$5,060,000	(10)%	\$5,648,000	(15)%	\$6,628,000
Percent of total revenue	18%		16%		15%

Services revenue consists primarily of annual and incident technical support fees, engineering services fees, professional services and consulting fees. These fees are typically charged and invoiced